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Wendy Bluemling
Director - Regulatory Affairs

April 25, 1997

Ex Parte

Mr. William F. Caton
Secretary
Federal Communications Commission
Room 222
1919 M Street NW
Washington, D.C. 20554

RECEIVED

APR 28 1997

Federal Communications Commission
Office of Secretary

Re: CC Docket No. 96-150, Accounting Safeguards Under The Telecommunications Act of 1996

Dear Mr. Caton:

Yesterday, April 24, 1997, Mr. David Clark, Mr. Paul Sciarra, and I, representing the Southern New England Telephone Company (SNET) met with representatives from the Common Carrier Bureau's Accounting and Audits Division Mr. Kenneth Ackerman, Mr. Jose Rodriguez, Mr. Andrew Mulitz, Ms. Valerie Yates, Mr. Ronald Kaufman, Ms. Kim Lee, John Hays, Ms. Alicia Dunnigan, Mr. Thaddeus Machcinski regarding SNET's Petition for Limited Reconsideration in the above-referenced proceeding. In the meeting Mr. Clark explained the reasons why SNET is seeking limited reconsideration.

Please include this letter in the record of this proceeding in accordance with Section 1.1206(a)(2) of the Commission's Rules. Acknowledgement and date of receipt of this transmittal are requested. A duplicate transmittal letter is attached for this purpose. Please contact me if you have any questions concerning this matter.

Respectfully submitted,

Wendy Bluemling

Attachment

cc: Mr. Kenneth Ackerman, Mr. Jose Rodriguez, Mr. John Hays, Ms. Valerie Yates
Mr. Ronald Kaufman, Ms. Alicia Dunnigan, Mr. Thaddeus Machcinski,
Mr. Andrew Mulitz, Ms. Kim Yee

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Accounting Safeguards Docket 96-150

Southern New England Telephone

Meeting With

FCC Accounting and Audits Division

4/24/97

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Current SNET Structure

- ◆ Structure Does **Not** Include a Separate Service Affiliate
- ◆ Corporate Types of Services Are Provided Internally Through the Telco and Holding Company
 - ◆ Payroll
 - ◆ Accounting
 - ◆ Legal
 - ◆ Information Technology
 - ◆ Corporate Governance
- ◆ These Services Are Provided Exclusively for the Telco and Other Affiliates in the Corporate Family
- ◆ These Services Are Provided in Accordance With SNET's CAM, Generally at FDC

Services Provided By Telco to Affiliates

- ◆ 20 Service Areas Tailored Specifically to 8 Affiliates (approx. 200 Shared Service Agreements)
 - Operator and Telecommunications Services Provided at Tariff
 - Directory Advertising At Prevailing Market Price
 - Billing Services Now At FDC- Might Be Candidate for Market Valuation
 - All Others at FDC; Not Readily Comparable to Market

Services Provided By Affiliates to Telco

◆ Approx. 15 Service Areas

- Telecommunication Services Predominately At Tariff
- Most Provided at Prevailing Market Price (e.g., Cellular, Internet, Teleconference Svcs.)
- A Few Remaining Services Provided At FDC (e.g., Contract Administration)

SNETs Petition Before the FCC

- ◆ SNET Agrees With the Broad Principles Expressed in Paragraphs 147 & 148
 - Subscribers Are Protected Against Cross-Subsidization Through “Arms Length” Transactions With Affiliates
 - Ratepayers Should Derive Benefits From Economies of Scale, Scope and Recovery of Shared Cost
 - Ratepayers Would Bear the Cost of Fair Market Valuations for Services Provided Exclusively to the Corporate Family, With Limited Benefit Derived
- ◆ Petition Seeks Limited Expansion of the 148 Exception
- ◆ Exception to Apply to LECs, Like SNET, That Provide Services Exclusively for Itself and Its Corporate Family

SNET Supports an Expansion of Paragraph 148 Exception

- ◆ **SNET, on a Practical and Operational Level, Is Indistinguishable From Carriers That Qualify for the Exception**
- ◆ **Same Benefits Accrue to Subscribers Through Economies of Scale & Scope**
- ◆ **Valid Market Comparisons Would Be Difficult to Obtain for Services Specifically Tailored to a Corporate Family; FMV Tends to Be Subjective and Disputable**
- ◆ **Significant Resources and Non-Value Added Cost Would Be Borne by the Ratepayer**
- ◆ **Prices Charged > Than FDC Would Likely Disincent Purchase**
- ◆ **Establishing a Separate Services Subsidiary Would Require Significant Incremental Cost**

SNET Recommendation

- ◆ Expand the Exception in Paragraph 148 to Include Those Situations Where a LEC, Such As SNET, Provides Services Exclusively for Its Corporate Family Through the Regulated Telco and Its Holding Company